

Decision 05-03-024 March 17, 2005

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of Southern California Edison Company (E 338-E) for Authority to Institute a Rate Stabilization Plan with a Rate Increase and End of Rate Freeze Tariffs.

Application 00-11-038  
(Filed November 16, 2000)

Emergency Application of Pacific Gas and Electric Company to Adopt a Rate Stabilization Plan. (U 39 E)

Application 00-11-056  
(Filed November 22, 2000)

Petition of THE UTILITY REFORM NETWORK for Modification of Resolution E-3527.

Application 00-10-028  
(Filed October 17, 2000)

**OPINION ALLOCATING THE 2005 REVENUE  
REQUIREMENT DETERMINATION OF THE  
CALIFORNIA DEPARTMENT OF WATER RESOURCES**

**I. Summary**

This decision allocates the 2005 revenue requirement of the California Department of Water Resources (DWR), using the methodology adopted by this Commission in Decision (D.)04-12-014. This decision also performs a “true-up” of DWR’s 2003 revenue requirement and adopts adjustments that reflect actual IOU costs and remittances through September, 2004. As described in the parties’ briefs, along with submissions from DWR, the parties have resolved their

differences and reached general agreement on the issues presented in this proceeding.<sup>1</sup> We adopt the recommendations of the parties.

## **II. 2003 True Up**

The parties agree that this proceeding's true-up of DWR's 2003 revenue requirement should be final, and they further agree that DWR's prepared schedules properly reflect the correct outcome of that true-up. (See, e.g. PG&E's Reply Brief, pp. 1, 3; SDG&E's Reply Brief, p. 3.) Accordingly, the 2003 revenue requirement is trued-up as shown in DWR's schedules, attached as Appendix A to this decision.

## **III. 2004 and 2005 Allocations**

The parties agree that the allocations for 2004 and 2005 should be considered interim or placeholder allocations, subject to later true up. Specifically, the 2004 allocation would be trued-up in the Commission proceeding addressing DWR's 2006 revenue requirement allocation, and the 2005 allocation would be trued-up in the proceeding addressing DWR's 2007 revenue requirement allocation. As PG&E describes the true-up process, the allocations for 2004 and 2005 would be: "[S]ubject to adjustment to reconcile actual data and classification of such data to the utilities' actual remittances and the Commission's permanent allocation methodology." (PG&E Reply Brief, p. 3.) SCE describes it similarly, noting that, "[T]he actual costs and revenues incurred

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<sup>1</sup> Opening and Reply Briefs were received from Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E). DWR served a submission dated January 26, 2005, and a supplemental submission dated February 7, 2005, containing schedules that reflect its calculations of the agreed-upon allocations.

and received by DWR in 2004 and 2005 are subject to true-up, along with the categorization of the costs, to the extent the current categorizations are not consistent with the Commission's decisions." (SCE Reply Brief, p. 2.)

We agree. The 2004 and 2005 allocations are based in part on forecasts, and it is appropriate to true-up those forecasts once actual data becomes available, consistent with our prior practice in this proceeding.

In order to reach an agreement, the parties found that they needed to resolve what SDG&E identified as a "mismatch" between the allocation of costs and revenues. (SDG&E Reply Brief, p. 2; see also SCE Reply Brief, pp. 1-2.) The resolution of this issue is described by PG&E:

There appeared to be broad consensus that the cost follows contract (CFC) methodology should be applied using general principles of consistency. This requires proper application of the following two principles:

- If costs associated with a contract are specifically allocated to a utility, then revenues derived from those costs also should be specifically allocated to that utility (i.e., if one utility is paying gas costs then it should be entitled to the revenues produced with those gas costs). Conversely, if costs are shared (e.g., because the contract has not been allocated), then the related revenues also should be shared.
- To the extent a contract has been allocated to a specific utility, the costs and revenues associated with that contract should be specifically allocated to that utility and these costs and revenues (on an "expected" or other appropriate basis) should be taken into account in determining that contract's "above market cost." (PG&E Reply Brief, p. 2.)

We adopt this approach, as it simply makes sense, and does not appear to be in conflict with the principles we stated in D.02-09-053 and D.04-12-014, the

decisions presently controlling the methodologies used for allocating the costs of DWR contracts.

Given these conditions, the allocations agreed to by the parties and DWR for 2004 and 2005 are adopted, as shown in Appendix A to this decision.

#### **IV. Utility-Specific Balancing Accounts**

Ordering paragraph 9 of D.04-12-014 directed the utilities to work with DWR and the Commission's Energy Division to implement utility-specific balancing accounts. The utilities were ordered to submit advice letters within 75 days of the decision, describing the utility-specific balancing accounts and how they will work. (Id., p. 16.) Accordingly, advice letters were submitted by the utilities on February 15<sup>th</sup>, 2005. Each of the utilities emphasized that: 1) they were collaborating with DWR in developing USBAs; 2) DWR will be responsible for administering USBAs; and 3) it was their individual and collective understanding that DWR would make a submission to the Commission setting forth the details of the USBAs, as agreed upon by DWR and the utilities. The utilities asked the Commission to approve this process.

DWR's March 14 letter memorandum stated that the California Energy Resources Scheduling (CERS) division of DWR "intends to submit a description of the utility-specific balancing accounts to the Commission once a consensus is reached regarding the mechanics of these accounts." We approve this proposal. In its review of DWR's submittal, the Energy Division should ensure that it reflects the allocations and approaches we adopt today.

#### **V. Bond Charge and Utility Power Charges**

In the model supporting its November 5, 2004 Determination, DWR calculates a 2005 Bond Charge of \$.005471 per kWh. We adopt that value.

The utility-specific DWR Power Charges that result from the adopted allocation of DWR's 2005 revenue requirement have been calculated by the Commission's Energy Division, and added as line 31 on Schedule 3, attached as part of Appendix A. These power charges are effective today, and have been calculated to reflect estimated payments made by each utility to DWR to date. Utility-specific rate design proposals should be handled in each utility's advice letter filing implementing this decision.

#### **VI. Petition for Modification and Rehearing**

We note that SDG&E has filed a petition for modification of D.04-12-014, and that we partially granted SDG&E's request for rehearing of D.04-12-014 in D.05-01-036. This decision does not address or resolve the petition for modification or any of the issues within the scope of the limited rehearing granted by D.05-01-036. The assigned Administrative Law Judge (ALJ) and assigned Commissioner can determine the process for addressing the petition for modification and the limited rehearing.<sup>2</sup>

#### **VII. Rehearing and Judicial Review**

This decision construes, applies, implements, and interprets the provisions of Assembly Bill (AB)1X (Chapter 4 of the Statutes of 2001-02 First Extraordinary Session). Therefore, Pub. Util. Code § 1731(c) (applications for rehearing are due within 10 days after the date of issuance of the order or decision) and Pub. Util. Code § 1768 (procedures applicable to judicial review) are applicable.

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<sup>2</sup> We are informed that the assigned ALJ intends to address and resolve the petition for modification prior to addressing the limited rehearing.

### **VIII. Assignment of Proceedings**

Geoffrey F. Brown is the Assigned Commissioner and Peter V. Allen is the assigned Administrative Law Judge in these proceedings.

### **IX. Comments on Draft Decision**

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Commission's Rules of Practice and Procedure. On March 7, the Commission received comments from PG&E and SDG&E, and a letter memorandum from DWR.

PG&E's comments were relatively minor and technical, and requested (among other things) that PG&E be allowed to have a later implementation date of May 1, 2005 in order to smooth out an anticipated series of rate adjustments. We will grant that request, with a minor modification.

SDG&E criticizes certain language in the decision on the grounds that it is inconsistent with the idea that the methodology adopted in this decision is only to be applied on an interim basis to the 2004 and 2005 revenue requirement, in order to meet the required 120-day deadline. (SDG&E Comments, p. 2-3.) But as SDG&E acknowledges, this is an interim decision (stated clearly in the decision itself), with minimal (if any) precedential value. Furthermore, as SDG&E points out, a petition for modification is still pending, and partial rehearing has been granted. SDG&E's concern with the language in the decision appears to be overstated.

SDG&E also requests that this decision be updated to more accurately describe the status of negotiations between the utilities and DWR regarding the implementation of utility specific balancing accounts. We have changed the language discussing this issue accordingly.

DWR's letter memorandum indicated that DWR was "currently considering proposed revisions" to its determination of its 2005 revenue requirement.

DWR also recommended that the new Power Charges be made effective on a prospective basis, rather than retroactive to January 1, 2005. We have made that change.

On March 14, reply comments were received from PG&E, SDG&E and SCE, and a second letter memorandum was received from DWR. PG&E and SDG&E largely devote their reply comments to arguing with each other about how to implement DWR's possible revisions to its 2005 revenue requirement, and in particular about possible allocations of the Williams gas contract. As SCE points out, however, the Williams gas contract can and should be examined in the rehearing phase of this proceeding, as ordered in D.05-01-036.

PG&E's and SDG&E's dispute about DWR's revised 2005 revenue requirement is also simply not ripe, as DWR's second letter memorandum, received on March 14, merely states that DWR is still "considering" revisions to its revenue requirement. While DWR states that it believes the Commission can implement such revisions on March 17 (the date this item is required to be on the Commission agenda), DWR has failed to provide the necessary information to the record of this proceeding in a timely manner. It is not clear how DWR believes that information that is not on the record on March 14, and that is the subject of dispute by the parties, can be used as the basis for a Commission decision on March 17. Even if DWR plans to provide the information in some form, perhaps via another letter memorandum, sometime on March 15 or 16, this Commission cannot, consistent with due process, base a March 17 decision on such last-minute and disputed information. We will timely process any revised

revenue requirement submitted by DWR, and promptly pass on to ratepayers any possible rate reductions.

### **Findings of Fact**

1. The parties have reached agreement on the issues in this case, including the true-up of DWR's 2003 revenue requirement allocation, adjustments to the allocation of DWR's 2004 revenue requirement, and the allocation of DWR's 2005 revenue requirement.
2. DWR calculates a 2005 Bond Charge of \$.005471 per kWh.
3. The Commission's Energy Division has calculated utility-specific DWR Power Charges for 2005 from the adopted allocation of DWR's 2005 revenue requirement.
4. SDG&E has filed a petition for modification of D.04-12-014, and the Commission, in D.05-01-036, partially granted SDG&E's request for rehearing of D.04-12-014.

### **Conclusions of Law**

1. The parties' agreement on the allocation issues is reasonable, is consistent with prior Commission decisions, and should be adopted.
2. DWR's calculation of the 2005 Bond Charge should be adopted.
3. Energy Division's calculation of the utility-specific 2005 DWR Power Charges should be adopted.
4. This decision need not and should not address or resolve SDG&E's petition for modification of D.04-12-014, nor should it address or resolve any of the issues within the scope of the limited rehearing granted by D.05-01-036.



**O R D E R**

**IT IS ORDERED** that:

1. The parties' agreement on the 2003, 2004, and 2005 allocation issues is adopted, as shown in Appendix A.
2. The 2005 Bond Charge is set at \$.005471 per kWh, as calculated by the Department of Water Resources.
3. The utilities shall provide updated estimates of direct access customer responsibility surcharge revenues in their implementation advice letters.
4. The 2005 Power Charges shown in Appendix A, after final adjustments by the utilities as described above for the direct access customer responsibility surcharge, shall go into effect immediately, and will remain in effect until further order of the Commission.
5. Within 14 days of the issuance of today's decision, Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company shall file advice letters with revised tariffs that reflect the power charges, as adjusted for the direct access customer responsibility surcharge. These new tariffs shall be effective no later than May 1, 2005, subject to review by the Commission's Energy Division.
6. The assigned administrative law judge and commissioner can determine the process for addressing the open petition for modification and limited rehearing.
7. Pub. Util. Code § 1731(c) (applications for rehearing are due within 10 days after the date of issuance of the order or decision) and Pub. Util. Code § 1768 (procedures applicable to judicial review) are applicable to this decision.

8. This order is effective immediately.

Dated March 17, 2005, at San Francisco, California

MICHAEL R. PEEVEY  
President  
GEOFFREY F. BROWN  
SUSAN P. KENNEDY  
DIAN M. GRUENEICH  
Commissioners